

# REVENUE ANALYSIS

## ECONOMIC OVERVIEW

Chesterfield County relies on many different revenues in order to provide quality services to its citizens. Some, such as property taxes, are general in nature and can be used for a variety of services. Others, such as building permit and recreational fees, are program specific and must be used for the purposes for which they were collected. The county's sources of revenue are discussed in this analysis.

All revenues come from one of three different levels. They are either locally generated or come from state or federal sources. The proportion of the county's revenues from each of these sources is shown in the graph below. Since the county's revenues come from all three levels of government, Chesterfield's financial position is affected by economic conditions at every level.

### Regional Economy

Chesterfield County is part of the Richmond-Petersburg Metropolitan Statistical Area, which also includes the counties of Henrico, Hanover, New Kent, Goochland, Powhatan, Charles City, Prince George, and Dinwiddie, and the cities of Richmond, Colonial Heights, Petersburg, and Hopewell. This area supports a diversified industrial base that enjoyed economic prosperity through the mid to late

1990s. While the recent recession has slowed this growth, diversification has sheltered the region from severe impacts.

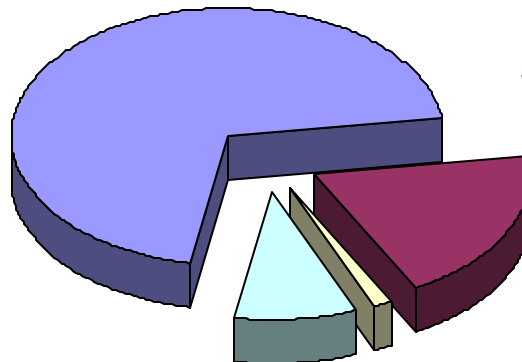
Employment in the Richmond-Petersburg area ended 2002 with 0.01% growth for the year. The region had an unemployment rate of 4.2% as of December 2002 (Chmura, p. 27). In comparison, the area's unemployment rate stood at 3.6% in September 2002. The rise in the unemployment rate was due to layoffs in a wide variety of sectors, including government, construction, retail and insurance (Chmura, p. 27). Chesterfield's unemployment rate at the end of 2002 was 2.8%.

Retail sales continued to be anemic, with the region showing a 1% increase over the year ending December 2002 (Chmura p. 29). Statewide retail sales increased 4.6% over the same period (Chmura, p. 13). Car sales in Chesterfield increased by 3% in FY2002. For the first nine months of FY2003, new and used car registrations in the county were lagging in comparison with the same period in FY2002. The moving average for single family building permits in the metro region grew 9.6% for the 12 months ending December 2002, and the moving average of permit activity is at its highest point in the past 12 years (Chmura p. 30).

FY2004 Adopted General Fund  
Revenue Sources

Local Revenue 70%

Taxes  
Permits and Fees  
Service Charges  
Fines and Forfeitures  
Use of Money and Prop.



State Revenue 19%

Personal Property  
Tax Relief Act  
State Sales Tax  
Compensation Board  
Reimbursements

Fund Balance & Other  
9%

Federal Revenue  
2%

Welfare  
Other Federal Aid

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Looking ahead for the region, relatively low interest rates are expected to continue to support homebuilding, and employment is anticipated to increase slightly in 2003. Retail sales are projected to expand by 3.0% and building permits are forecast to increase by 9.1% in 2003 (Chmura, p. 29).

## **Virginia Economy**

The latest available economic data indicates that the state economy is still not showing signs of recovery, but the chance of another recession is diminishing. Retail sales have begun to improve slightly, and building permits continue to grow. Virginia's important high-tech sector has yet to recover from the prior recession. Employment growth in the state is sluggish and initial unemployment claims have begun to climb (Chmura, p. 9).

Although well suited to withstand economic downturns, Virginia is not immune to the problems associated with recessions. The economic prosperity of the 1990s resulted in surplus revenues and inflated projections for the first few years of the new century. Virginia finished FY2002 with a revenue shortfall of \$237 million, the weakest revenue performance of any year in the 40 years that the Department of Taxation has been keeping records. As a result, revenue projections for FY2003 and FY2004 have been significantly reduced. Cuts at the state level have reduced the amount of funding Chesterfield receives from the state for constitutional officers, juvenile crime control, substance abuse reduction efforts, mental health, mental retardation and substance abuse services, social services, health, libraries, comprehensive

services for youth, juvenile detention and other general revenues. The specific impacts of the state's budget position are discussed in the state revenue section of this narrative.

## **National Economy**

At the national level, Federal Reserve Districts report economic activity from mid-November 2002 through early January 2003 as "sluggish" or "soft" (Federal Reserve Bank).

Holiday sales were characterized as disappointing. Locally, Chesterfield's sales were encouraging in comparison to prior year holiday sales, but consumer spending in general continues to be weak. Auto sales surged at year-end due to favorable financing incentives. Manufacturers have expanded production slightly, and home sales and residential construction activity remained at high levels. Labor demand was mostly flat and the worries over the war with Iraq continue to push stock prices down. Analysts indicate that consumers are saddled with the highest debt loads on record. This burden, coupled with rising energy prices and lower overall confidence, could dampen consumer spending, which accounts for two thirds of all economic activity in the U.S. Overall, however, most analysts expect the economy to grow about 3.5% or slightly less in 2003. Given the uncertainties in the economy projected over the rest of 2003, this budget conservatively forecasts revenue for FY2004 and beyond.

## **LOCALLY GENERATED REVENUES**

### **Property Taxes**

Property taxes are the county's largest source of locally generated revenues, comprising 47.5% of the FY2004 general fund budget. Real estate and personal property, including vehicles, trucks, boats, trailers, airplanes, and exotic animals, are taxed on the assessed value of the property, which approximates fair market value. The major sources of property taxes are real estate and personal property taxes. Other sources of property taxes

include the machinery and tools tax, mobile home tax, and penalties and interest on property taxes.

#### Real Estate Taxes

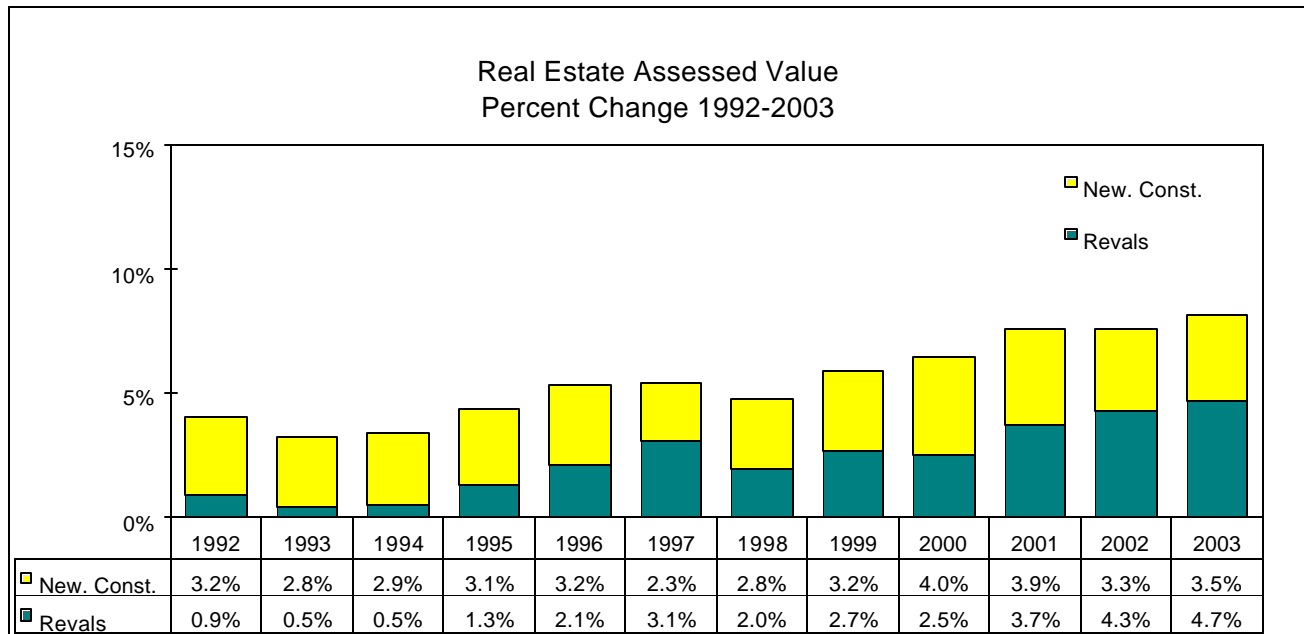
Real estate taxes are the largest source of property tax revenue, and the largest single source of revenue to Chesterfield County. The FY2004 budget reflects a real estate tax rate of \$1.07 per \$100 of assessed value, consistent with that of last year. The rate is

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set and taxes are levied on a calendar year basis; the Board of Supervisors adopts the tax rate in April. That rate is then applied to the two subsequent billings. Payments of real property taxes are due on June 5th and December 5th. The June 5th payments are appropriated and used in the FY2003 budget and the December 5th payments are appropriated and used in the FY2004 budget. Real property tax revenue projections are based on collection rates and incremental growth in total assessed values. Revenue projections assume the county will collect approximately 99% of the December levy and 97% of the June levy. The December levy is based on the value of the previous June levy, taking into account any new construction occurring during the year. Property is assessed at 100% of the market value at the end of the prior calendar year. The county's latest state-reported assessment to sales ratio (representing 2000 assessment and 2000 sales data) is 90.6%. The state ratio is calculated comparing

same year assessment and sales information. The county calculates a median assessment to sales ratio using the sales information that is used to establish the assessments. For example, the 2003 assessments are based on calendar year 2001 sales data. The county's assessment to sales ratio using this information is 98%.

The county expects to generate approximately \$203.1 million in real estate taxes during FY2004. This figure includes public service real estate and both current and delinquent taxes. The FY2004 budget reflects a 7.7% (or \$14.5 million) increase in the collection of real estate taxes over the FY2003 adopted budget. The FY2004 estimate considers existing land values, current and expected rates of inflation, and trends in new residential and commercial construction.



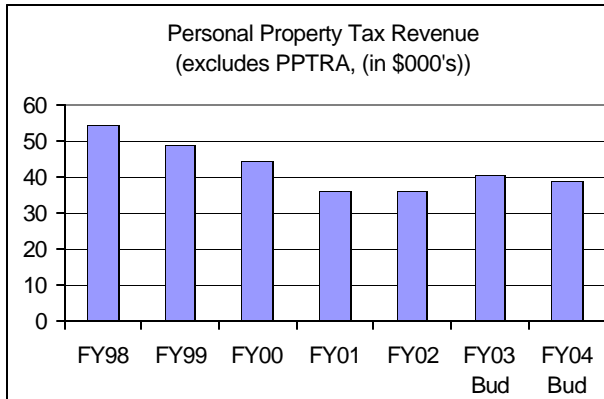
## Personal Property Taxes

Personal property taxes are assessed on various classes of personal property. Calendar year 2002 rates varied from \$0.01 to \$3.60 per \$100 of assessed value. The Commissioner of the Revenue, who administers personal property taxes, keeps record of a property's assessed value. A table of the various personal property tax rates is located in the

Statistical Section of this document. The largest class of personal property is passenger automobiles and trucks, which are taxed at the general \$3.60 property tax rate. The tax rate is set for the calendar year in April. Personal property tax payments are due annually on June 5.

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The FY2004 budget for personal property taxes is \$38,768,100. This figure does not include public

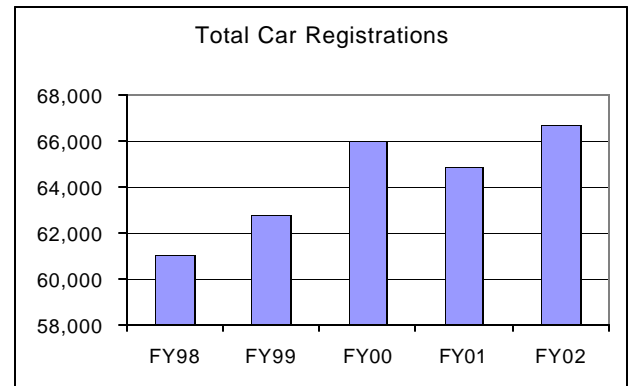


service personal property taxes of \$198,600 or personal property tax relief reimbursements from the state. Personal property taxes comprise 7.4% of the total general fund FY2004 budget.

Calendar year 2004 will be the seventh year of reimbursement under the Personal Property Tax Relief Act of 1998 (PPTRA). Under PPTRA, the state systematically reduced the percentage of personal property tax bills residents pay. The state has reimbursed localities for the percentage not paid by residents that increased each year between 1998 and 2001. In FY2001, residents were billed for 30% of their personal property tax on qualifying vehicles, and this reimbursement level is expected to continue through FY2004. This budget assumes the state will reimburse the county 70%, and that this reimbursement will grow at the same rate as that projected for personal property tax revenue. Personal Property Tax Relief Act revenue is discussed in the state revenue section of this analysis.

New and used car registrations within the county provide some indication as to growth in the personal property and PPTRA revenue combined. During FY2002, the number of car registrations increased by 2.8% over the prior year, reversing a 1.6% decline in registrations experienced between FY2000 and FY2001. The number of vehicles registered in FY2002 exceeded that registered in FY2000 resulting in growth in total personal property and PPTRA revenues budgeted in FY2003 and FY2004. The FY2004 estimate of \$78,766,500 for personal property and personal property tax relief revenue combined assumes a 3.8% increase over the FY2003 revised

personal property and personal property tax relief revenue estimate of \$75,918,100. Revenue estimates for property taxes were revised downward from the adopted FY2003 budget during the second quarter



based on declining trends in new and used car registrations for the first six months of the year.

## Other Property Taxes

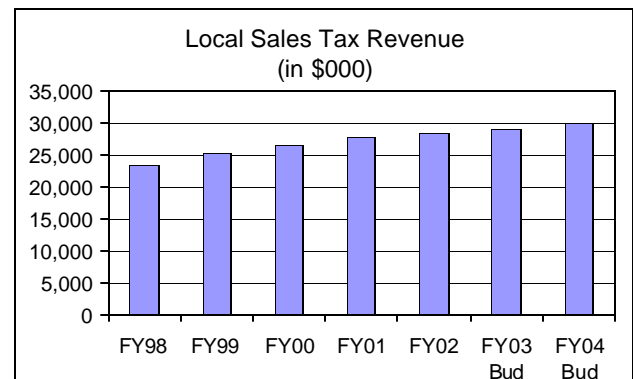
Other property taxes include the mobile home tax, machinery and tools tax, and penalties and interest on all property taxes. These revenues are estimated to be \$7,102,000, or 1.4 % of the FY2004 budget.

## Other Local Taxes

The other local taxes category includes all locally assessed taxes other than property taxes. Other local taxes represent 14.4% of the general fund budget. Major revenue sources within the other local tax category include local sales taxes, business professional and occupational license taxes (BPOL), consumer utility taxes, and motor vehicle licenses.

## Local Sales Tax

The local option sales tax is a 1% tax on the sale of goods within the county. The state of Virginia collects a 3.5% tax on all sales for a total sales tax of



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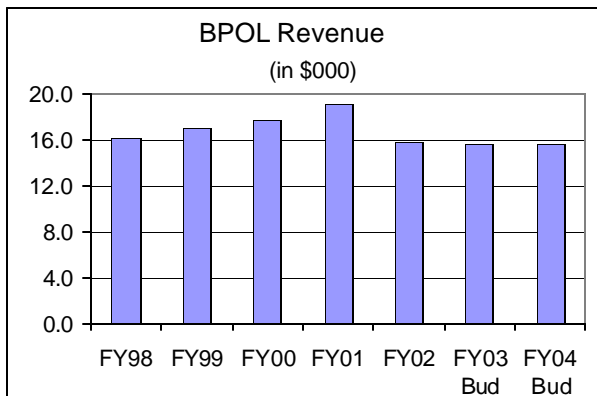
4.5% on all purchases. Both the local option and the state sales taxes are collected at the point of sale, and the Virginia Department of Taxation remits the local option sales tax back to the county on a monthly basis.

Sales tax collections depend highly on consumer confidence in the economy, which impact the level of retail sales in the area. Retail sales in the Richmond-Petersburg area have increased overall by about 1.4% through the first nine months of FY2003 when compared to the first nine months of FY2002. This is encouraging given that FY2002 retail sales for the region declined when compared to FY2001.

In particular, Chesterfield's retail sales for the first nine months of FY2003, which includes holiday sales, are positive. Through the first three quarters of FY2003, Chesterfield's retail sales revenue has outpaced growth assumptions when compared to the same time last year. The FY2003 budget assumed a 2.4% increase for the year. The FY2004 budget assumes a modest increase of only 3% over the FY2003 estimate with local sales tax projected at \$30,128,000 or 5.8% of the FY2004 general fund budget. Estimates remain conservative given uncertainties around the economy and given that two new regional malls will be opening in the next year and the impact of those on Chesterfield's sales tax revenue is not known.

## Business Professional and Occupational License (BPOL) Tax

The Business Professional and Occupational License (BPOL) tax is a tax on the gross receipts of businesses which operate in Chesterfield County. The tax is due annually on March 1, and must be paid before the business can receive a business license.



The following fee structure applies to BPOL taxes and fees in 2003. Businesses with gross receipts less than \$10,000 do not pay a BPOL tax or fee. Businesses with gross receipts of \$10,000 up to \$100,000 pay a \$10 license fee, but no BPOL tax. Businesses with gross receipts of \$100,000 or more pay a tax on their gross receipts (less the \$200,000 exemption described in the next paragraph) based on their type of business, or \$10, whichever is greater.

The Chesterfield County Board of Supervisors has made a commitment to "capping" BPOL tax revenues at the amount collected in FY1999. Beginning in 2000, growth in this revenue source was used to create exemptions to the gross receipts taxed for businesses with gross receipts over \$100,000. In 2002, the exemption level was increased from \$100,000 to \$200,000 and tax rates for various categories of businesses paying the BPOL tax were reduced, thus capping the BPOL revenue at its FY1999 level.

The amount of revenue the county receives is dependent on the gross receipts of businesses in the calendar year immediately prior. While the budgeted amount of revenue collected will not increase because of the cap, it does affect the types and levels of reductions that can be made to keep the amount of revenue the same as in prior years.

Each year, the growth in BPOL is estimated to determine the reductions necessary to maintain the revenue at the appropriate level. In FY2000 and FY2001, the revenue exceeded the budgeted cap due to the unexpectedly large growth in gross receipts reported by county businesses for calendar years 1999 and 2000. In FY2002, BPOL revenue was only slightly higher than the budget and consequently no changes in categorical rates or thresholds were made in January 2003. Business Professional and Occupational License revenue is budgeted at \$15,656,600 for FY2004, the same as in FY2003.

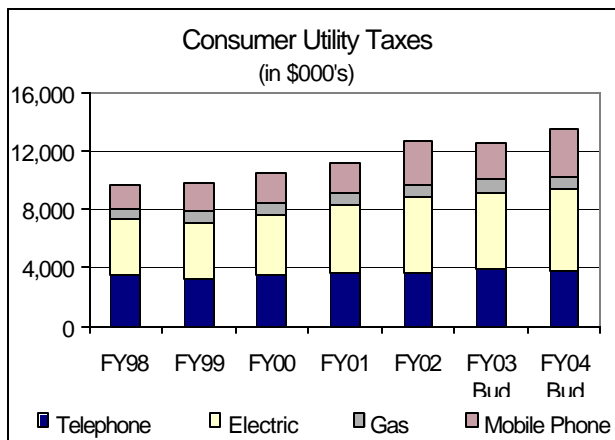
## Consumer Utility Taxes

Consumer utility taxes are collected on four types of utility services to Chesterfield residents and businesses: electric, gas, telephone, and mobile phone. The rates on electric, gas and telephone differ for residential consumers and commercial/industrial consumers. Residential rates

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for these three utilities are capped at \$2.00 per month. Rates for mobile phone utility taxes are capped at \$3.00 per month.

Recent legislation has changed the way Virginia localities bill the consumer utility tax on electric and gas consumers. Before these changes, electric and gas utility taxes were billed as a percentage of the consumer's monthly bill, similar to the way telephone and mobile phone utility taxes are currently assessed. The deregulation of the electric and gas industries has led to taxes based on the number of units of electricity and gas consumed. The new rates were designed to be "revenue neutral", neither collecting more nor less revenue for the county.



The legislation also specified, however, that these utilities would no longer pay a gross receipts (BPOL) tax, and that the revenue otherwise collected on gross receipts would become a consumption tax with rates set by the state. A portion of this state consumption tax is remitted to localities as a replacement for the BPOL tax.

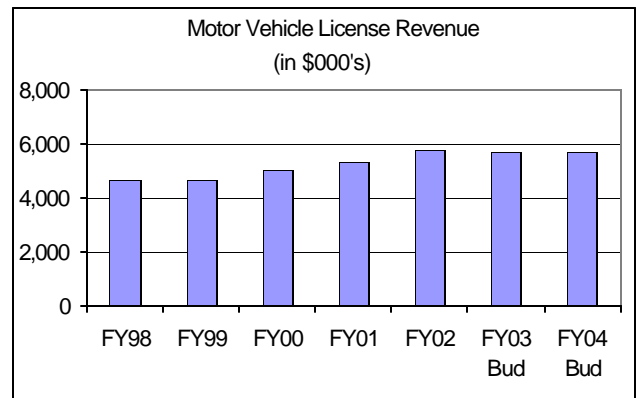
Consumer utility taxes typically exhibit steady growth on a year to year basis. Audit activity, unseasonable temperatures (electric & gas), and rate changes impact the revenue from these revenue sources, but these factors are difficult to predict.

The FY2004 budget estimates \$13,442,500 in revenue from consumer utility taxes during the fiscal year. This is a 7.7% increase over the FY2003 budget.

## Motor Vehicle Licenses

Every Chesterfield County resident must register their vehicles, boats, motorcycles, and trailers for taxation and purchase a motor vehicle license for display on the item for proof of registration. While the fee for the license varies according to the type of item being registered, licenses for most passenger vehicles are \$20. This revenue source has steadily increased over the past 5 years, with the exception of FY97 when an adjustment in the license expiration date decreased the revenue coming in to the county. Movement of the motor vehicle license enforcement date from July 31 to June 25 in FY2002 resulted in a one-time increase in this revenue during FY2002.

The amount of revenue from motor vehicle licenses somewhat follows the trends in car registrations. As the number of vehicle registrations increase, the revenue generally increases. Motor vehicle license revenue is estimated to be \$5,694,100 in FY2004.



## Other Local Taxes

Other taxes in the other local taxes category include bank stock taxes, recordation taxes, E911 phone taxes, transient occupancy (hotel) taxes, and short-term rental taxes. The taxes in this category are budgeted at \$10,753,800 for FY2004.

## Other Local Revenue

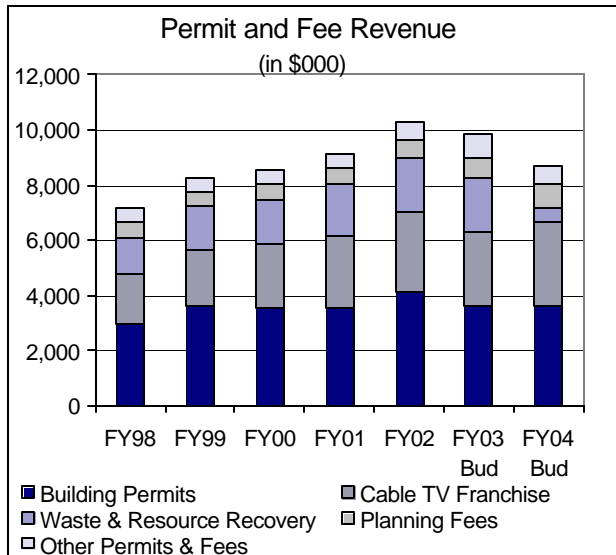
Chesterfield receives other local, non-tax revenue from a variety of sources. The main types of other local revenues are permits and fees, fines and forfeitures, use of money and property, charges for services, and recovered costs and miscellaneous. All together, these sources of other local revenue are budgeted at \$43,457,500, and comprise 8.3% of the FY2004 general fund budget.



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## Permits and Fees

The county generates local revenue from charges for building permits, planning permits, and several other miscellaneous licenses and fees, such as cable TV franchise fees and dog licenses. A large portion of this category is building permit fees, which support the functions of the Building Inspections Department. The FY2004 budget for building permits is \$3,644,000, which includes all types of residential and commercial permits.



The Planning Department also charges a fee for the costs of reviewing development plans such as rezoning requests, site plans, subdivisions, variances, and conditional uses. In the past, these fees have not covered the actual costs of conducting reviews. A fee increase for these permits is included in the FY2004 budget, the second year of a proposed three-year phase-in. There is also a new fee for new residential building permits in the budget. Both of these fees are discussed at the end of this narrative. With the fee increase, the FY2004 budget for all planning fees is \$909,200.

Solid waste fees cover a variety of services provided by the Solid Waste and Resource Recovery division of General Services. The majority of the fees are collected at the county's transfer station for the dumping of solid waste. These fees budgeted at \$507,000 in FY2004, also cover residential garbage collection and bulky waste disposal. An additional \$1,468,000 for residential gate landfill fees are budgeted in the service charges category, a change from the FY2003 budget.

Other fees include the cable TV franchise fee, a fee paid by the cable service provider equal to 5% of gross subscriber revenues. Cable TV franchise fees are expected to generate \$3,002,500 in FY2004. A March 2002 proposed FCC ruling that cable modem services are not subject to local franchise fees has lowered the projected growth in this revenue. Cable modem services have been the fastest growing segment of cable TV franchise revenue. Other small permit and fee revenues will generate \$612,700. The total amount of permits and fees in the FY2004 budget is \$8,675,400, or 1.7% of general fund revenues.

## Fines and Forfeitures and Use of Money and Property

These two revenue categories are expected to generate \$4,617,400 in FY2004. Of the \$1,020,500 budgeted in fines and forfeitures, \$1,000,000 is from court fines. The revenue from use of money and property includes interest earned on invested general fund balances and rent of county facilities. This revenue is estimated at \$3,596,900 for FY2004 and also includes the sale of plans and publications.

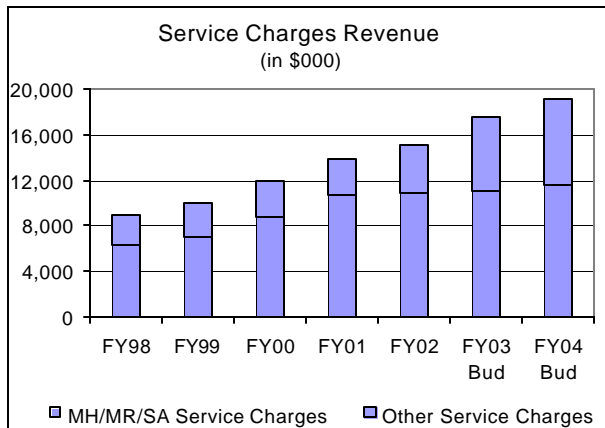
## Service Charges

The county collects revenue in the form of charges for services provided to citizens. Service charge revenue is estimated to be \$20,905,700 in FY2004, which represents 4% of the general fund budget. The greatest proportion of service charge revenue is in the Mental Health/ Mental Retardation/ Substance Abuse (MH/MR/SA) Department. Most of MH/MR/SA service charges are Medicaid charges paid by the state for state mental health clients. In the FY2004 budget, MH/MR/SA service charges total \$11,561,400, or 55.3% of the total service charge revenue to the county. In FY99 through FY2001, MH/MR/SA began taking more state clients due to decentralization of state services. This resulted in the almost 50% increase in revenues between FY1999 and FY2001. Those funding levels have stabilized over the past two years.

Other revenues in this category include parks and recreation fees, library fines, off-duty police officer charges, reimbursements from schools for county provided services, residential gate landfill fees and the EMS transport charges that began in FY2003.

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A new fee for Emergency Medical Services was implemented in July 2002. The Fire and EMS Department charges \$350 for basic life support, or \$385 for advanced life support, plus \$7.50 per mile



in order to recover some of the transport costs involved in providing these services. Citizens have the option of paying an annual \$59 subscription fee

that would address any co-payments or deductibles not covered by insurance as well as satisfy charges for the uninsured. The FY2004 budget includes approximately \$1.9 million in revenue related to this fee, which is being used to fund a number of EMS system enhancements for both career and volunteer providers (see the Fire and EMS narrative in the Public Safety section of this document). The budgeted amount is based on anticipated collection rates.

The county provides services to the school system, some of which are reimbursed by the school system. The FY2004 budget includes approximately \$2.8 million in school reimbursements, an increase of 29%. The main reason for this increase is due to a change in that schools will pay for a higher percentage of the school health nurses and school resource officers.

	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<b>Actual</b>	<b>Actual</b>	<b>Adonted</b>	<b>Adonted</b>
Real Estate Tax	\$168,101,485	\$178,041,136	\$188,559,800	\$203,097,400
% of General Fund	34%	39%	37%	39%
Personal Property Tax	36,420,837	36,237,869	40,827,400	38,966,700
% of General Fund	7%	8%	8%	7%
Other Property Tax	7,423,318	7,209,503	6,679,400	7,102,000
% of General Fund	1%	2%	1%	1%
Other Local Tax	73,098,977	73,933,623	73,065,200	75,575,000
% of General Fund	15%	16%	14%	14%
Permits and Fees	9,096,164	10,313,573	9,841,000	8,675,400
% of General Fund	2%	2%	2%	2%
Fines & Forfeit./ Use of Money & Property	6,741,999	4,154,539	4,743,500	4,617,400
% of General Fund	1%	1%	1%	1%
Service Charges	13,893,716	15,006,275	17,508,300	20,905,700
% of General Fund	3%	3%	3%	4%
Miscellaneous	9,449,225	11,644,471	8,092,500	9,259,000
% of General Fund	2%	3%	2%	2%
<b>TOTAL LOCALLY GENERATED REVENUES</b>	<b>\$324,225,721</b>	<b>\$336,540,989</b>	<b>\$349,317,100</b>	<b>\$368,198,600</b>
	65%	75%	68%	70%



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## Recovered Costs & Miscellaneous Revenues

Miscellaneous revenues in the FY2004 budget include internal service revenues and reimbursements from enterprise funds, other localities, and separate authorities for services provided by general fund departments. The significant increase, approximately \$865,000, in the Police Department's revenue is due to the fact that the school division is reimbursing the county for a higher percentage of the school resource officers,

child safety officers and crossing guards. Additionally, new revenue for wood waste products is budgeted for FY2004. Tree, brush and yard wastes are recycled into mulch at county landfills through a public-private partnership. The county receives a percentage of the proceeds of the mulch sales in exchange for storing the mulch at the landfills.

Miscellaneous revenues are budgeted at \$9,259,000 in FY2004, or less than 2% of general fund revenues.

## **STATE REVENUES**

The fiscal crisis at the state level is well documented, and is discussed in detail in the County Administrator's Transmittal Letter. Because Chesterfield receives funding from the Commonwealth of Virginia, significant cuts to balance the state budget have a direct and negative impact, and this impact transcends the entire spectrum of county government.

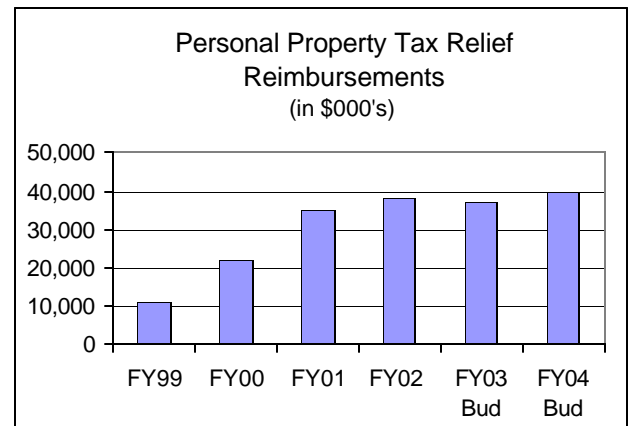
The reductions are significant, and they are real. The impact for FY2003 is estimated at \$6.2 million, which includes reductions in Compensation Board reimbursements for constitutional officers, as well as reduced support for Mental Health, Mental Retardation, Substance Abuse Services, Social Services, operation of the Juvenile Detention Home, Libraries and the Extension Office. The majority of these reductions will carry over into FY2004 and that impact is estimated at \$6.1 million. In sum, the total estimated impact of state funding reductions to the county for FY2003 and FY2004 is \$12.3 million.

Chesterfield receives funding from the Commonwealth of Virginia in several areas. The largest state revenue in the general fund is the reimbursement for the Personal Property Tax Relief Act, mentioned in the personal property section of this document. State sales taxes distributed for the school system and Aid to Localities with Police Departments (House Bill 599) are also major sources of state revenue.

## Personal Property Tax Relief Reimbursement

In 1998, the state of Virginia began its Personal Property Tax Relief Program, under which Virginia residents would pay a decreasing percentage of the

personal property tax on their qualifying personal vehicles until the entire tax was relieved in 2002. To qualify, vehicles must not be owned by a business and, if leased, the lessee must pay the property taxes. The program relieves the tax on up to \$20,000 of the vehicle's assessed value; owners with vehicles assessed over \$20,000 must pay the tax on the remainder.



In 1998, the first year of the program, the state sent refunds for 12.5% of the tax directly to taxpayers; therefore Chesterfield did not receive any reimbursement. In 1999, the state reimbursed the county for 27.5% of residents' property taxes. The reimbursement percentages for 2000 and 2001 were 47.5% and 70%, respectively.

The amount of revenue paid to the county has increased as the percentage of taxes reimbursed by the state has increased. The FY2004 budget includes \$39,799,800 in anticipated reimbursement under the PPTRA program. While the original intent of the

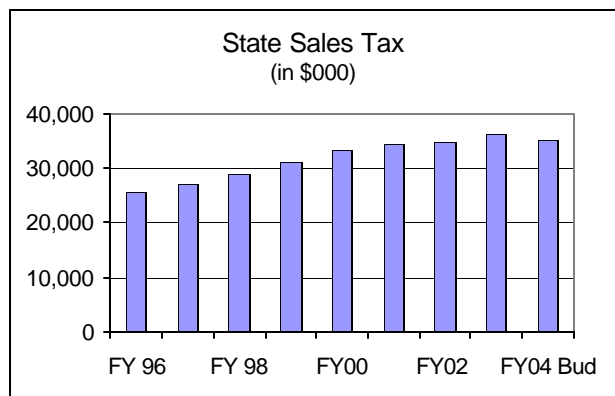
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Personal Property Tax Relief Act was to begin 100% reimbursements in 2002, fiscal constraints at the state level have prevented the full implementation of the reimbursement and frozen the reimbursement percentage at 70%. The General Assembly passed a 2002 – 2004 Biennial Budget which leaves the reimbursement percentage for FY2003 and FY2004 at the 70% threshold. Governor Warner submitted proposed amendments to the biennial budget to the joint House and Senate money committees on December 20, 2002 leaving the reimbursement level at 70% as well. This budget assumes the reimbursement percentage will be 70% for 2005, 2006, and 2007.

## State Sales Tax

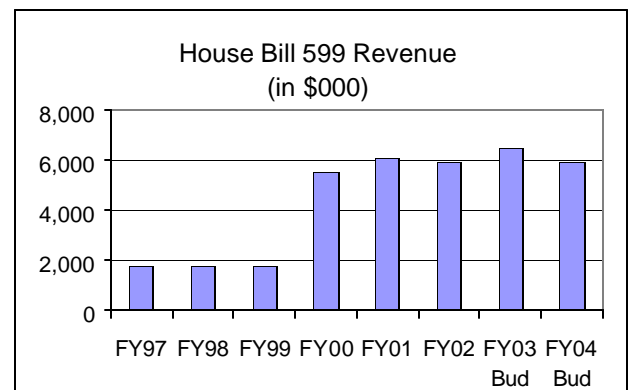
Not to be confused with the local option sales tax, Chesterfield receives a portion of the state's 3.5% sales tax earmarked for the public school system. An amount equivalent to 1% of sales statewide is distributed among Virginia localities based upon the number of school aged children residing within the locality. As it is earmarked specifically for education, this revenue "flows through" the county's general fund and goes directly to the school system.

Two factors influence this revenue source: the level of retail sales statewide and the proportion of the state's school children residing in Chesterfield County. The FY2004 budget estimates \$35,155,400 in sales tax revenue, which is a 2.8% decrease over the FY2003 budget. The decline in the estimate for sales tax is due to the lackluster economy as well as the county's results on the State Department of Education's triennial census.



## Aid to Localities with Police Departments (House Bill 599)

Commonly referred to as House Bill 599 (HB 599) funding, after the legislation that created it, aid to localities with police departments is a non-categorical revenue the county receives from the state. While state code provides a formula for the amount of HB599 money localities should receive, the state's budget bill did not significantly change the appropriation to localities for HB599 from FY92 – FY99. In FY2000, the formula was reinstated, which resulted in a significant increase in the amount Chesterfield County received from the state. The amount of revenue to be received in any given year is dependent on the state's budget, and therefore difficult to forecast.



In October 2002 Governor Warner announced a reduction of \$5.5 million in HB599 funding for FY2003 due to a decline in state general fund revenues. This will result in a reduction for Chesterfield of approximately \$200,000 to the FY2003 budget. (This is in addition to an earlier reduction to the county budget of \$324,000). The FY2004 budget estimates HB599 revenues at \$5,954,800, a decrease of \$527,500, or 8.1% from the FY2003 budget. Due to the uncertainty of this revenue source, level funding is projected for 2005, 2006, and 2007.

## Compensation Board Shared Expenses

The State of Virginia partially supports the expenses of local constitutional officers across the state. Chesterfield has five elected constitutional officers: Sheriff, Commonwealth Attorney, Clerk of Circuit Court, Treasurer, and Commissioner of the Revenue. The state Compensation Board reimburses localities for part of the costs of salaries, benefits, office

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expenses and equipment. The FY2003 budget included Compensation Board reimbursements of \$8,302,600. In December 2002, Governor Warner recommended reductions to the 2002-2004 Biennial Budget of 11% each year for circuit court clerks, treasurers, and commissioners of revenues, and 5% each year for commonwealth's attorneys. The Governor also recommended a reduction in sheriffs'

reimbursements of 5% each year. The FY2004 budget now includes Compensation Board reimbursements of \$8,278,000. The final Compensation Board budget will be approved May 1, 2003 and additional adjustments to the county budget may be required.

## **FEDERAL REVENUES**

The single largest source of revenue to Chesterfield County from the federal government is welfare pass through funding. This money is provided to the county for payments to individuals in the Temporary Assistance to Needy Families (TANF) Program. The FY2004 budget includes \$7,367,000 for welfare pass through funding, a decrease of \$5,817,100, or 44.2% from the FY2003 budget. This decrease is due to the fact that the county no longer appropriates food stamp reimbursements in the

budget as a result of the Electronic Benefit Transfer program. This program, implemented in FY2002, and now administered by the state, converts the issuance of food stamps from paper coupons to a credit card that can be utilized at local vendors.

The FY2004 budget includes \$8,361,700 in appropriations for federal revenue, most of which is welfare related.

## **FEE CHANGES**

The FY2004 budget includes an increase in the following departmental revenue to cover the cost of service enhancements.

### Utilities

FY2004 includes an increase in the water connection fee for initial connections to the county's water system. This increase of \$250 will set the connection fee at \$3,592. Prior to 2001, the water connection fee had not changed since 1991. FY2004 is the final year of a four-year phase in of connection fee increases.

The FY2004 budget also includes a 4.7% and 2.9% increase in the water and wastewater user charges respectively. The 4.7% increase equates to about \$1.26 and the 2.9% increase equates to about \$1.08 on an average bimonthly bill. These increases will be used to fund replacement projects for the water system and nutrient removal facilities at wastewater treatment plants.

### Planning

As mentioned in the permit and fee section of this analysis, the Planning Department charges fees for the review of development related requests such as

rezoning, site plans, subdivisions, conditional uses, and variances. The revenues from these fees covered only 44% of the department's cost in providing these services in FY2001. Costs for these services have increased since the last planning fee adjustment due to the increased level of public participation in these processes and the use of special conditions and proffers, which increase the complexity of each development related application. The County Administrator proposed a three year plan to increase planning fees with the goal of covering 80 percent of the cost of development review activities by FY2005. The first phase of this cost recovery plan for residential development reviews was implemented in FY2003. The second phase of residential development review fee increases is incorporated into the department's FY2004 budget. The fee increase is projected to generate an additional \$44,100 in revenue in FY2004. The development review revenues, inclusive of the fee increases will cover approximately 66 percent of the Planning Department's development review costs.

# ***REVENUE ANALYSIS***

The FY2004 budget for the Planning Department also includes new funding for a Construction Inspector position. This position would be responsible for enforcing special proffered conditions relating to the construction of single family homes. This position would be funded by revenues from the implementation of a \$25 per dwelling unit fee assessed at the time of building permit application. This fee is expected to generate \$62,000 in FY2004.

## Environmental Engineering

The FY2004 budget includes a new \$1,000 fee for resubmittal of previously approved subdivision plans. This fee would only be charged when a project plan that has already been reviewed and approved by staff is resubmitted with changes by the applicant. Currently, the department spends the

equivalent of one engineering position annually in processing such resubmittals. The fee is estimated to generate \$20,000 in FY2004. This revenue is not anticipated to establish long-term upward trends as developers exercise the resubmittal process less frequently. There are expectations that the fee will discourage resubmittals, and allow the staff time to be spent on other tasks.

## Fire Department

The FY2004 budget includes a new \$400 burn permit fee for open burning of large volumes of debris material, amounts in excess of 320 cubic feet. The fee is expected to generate \$90,000 in FY2004 and will be used to fund a new position in the Fire Marshall's office to help regulate open burning.

## ***SPECIAL REVENUE FUNDS***

In addition to the general fund, the county has four special revenue funds used to account for the proceeds of specific revenue sources (other than Capital projects) that are legally restricted to expenditures for specified purposes.

Special revenue funds include Comprehensive Services, Schools, Grants, and Capital Projects.

## Comprehensive Services

This fund reflects revenues and expenditures related to the operations of the county's Comprehensive Services Act (CSA) Program. The revenue sources are transfers from Schools, Social Services, General Fund, reimbursements from Colonial Heights and State Aid. In FY2004, the CSA program is anticipating \$6,033,800 in revenue from these sources; an increase of 2.9% over the FY2003 adopted budget. This increase is due to the growth in the costs of services to CSA children. For more information, see the Comprehensive Services description in the Human Services section of this document.

## School Fund

This fund reflects revenues and expenditures related to the operations of the county's public school

system. The primary sources of revenue, exclusive of transfers from the General Fund, are basic school aid payments from the Commonwealth and educational program grants. The FY2004 school fund revenue is estimated to be \$428,969,900. For more information about schools, see the school narrative in the schools sections of this document.

## Grant Fund

This fund reflects revenues and expenditures related principally to the federal government's Community Development Block Grant (CDBG), the Virginia Juvenile Community Crime Control Act (VJCCCA) and other federal and state grant programs. Each of these grants is described in detail in the related section of this document. The VJCCCA narrative is located in the Human Services section of this document and the CDBG narrative is located in the Community Development section.

## Capital Projects Fund

Capital Project Funds are used to account for financial resources used for the acquisition, design, development, and/or construction of major capital facilities (other than those financed by Proprietary Funds). The FY2004 county Capital Improvement Program budget is \$59,352,700. Revenues typically

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consist of transfers from the general fund, general obligation bonds or other financing sources, grants and donations, state or federal funds and cash proffers. More information on capital improvement projects can be found in the FY2004 – 2010 CIP.

## Proprietary Fund Types

Proprietary Funds are used to account for the county's on-going organizations and activities that are similar to those often found in the private sector. The following are the county's proprietary fund types:

### Enterprise Funds:

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing services to the general public, on a continuing basis, be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The county does not budget depreciation expenses in enterprise funds although it is recorded and reported in the annual financial report. Enterprise funds include the Airport and Utilities.

### Airport

This fund accounts for the operations of the County Airport. A fixed based operator (FBO) handles the daily service functions of the airport. The FBO maintains a contract with the county for rental of building and hangar space, which in turn provides a significant portion of the Airport's revenues. The county retains responsibility for all federal and state funded improvement projects. The Airport's major expenditures consist of salaries and wages, maintenance, debt and depreciation. Debt service

on Certificate of Participation (COPS) issued to construct facilities is accounted for through the Airport Fund.

### Water Fund

This fund accounts for the operation, maintenance and construction of the county's water system. Charges for service represent the major source of operating revenue.

### Wastewater Fund

This fund accounts for the operation, maintenance and construction of the county's wastewater system. The fund's major source of operating revenue is charges for service.

### Internal Service Funds:

Internal Service funds are used to account for the costs of operations for services provided to other county departments. Revenue is derived from charges on a cost reimbursement basis.

### Construction Management

This fund reflects the operation of the county's construction management function. The fund's only source of revenue is charges for services provided in coordinating and supervising all county building construction projects.

### Vehicle and Communications Maintenance Fund

This fund reflects operations of the county's garage, and radio shop that maintain the vehicles and communication equipment. Revenues are derived from charges to other departments and/or funds on a cost-reimbursement basis.

### Risk Management Fund

This fund reflects the operations of the county's Risk Management function. Charges for services of providing risk financing and recoveries are the major source of revenue for this fund. Major expenditures consist of re-insurance costs and claims.

### Sources:

Chmura, Christine, ed. Virginia Economic Trends, 1st Quarter 2003 Report, Vol. 5 Number 1. (2003)

The Beige Book, Summary of Commentary on Current Economic Conditions, January 15, 2003, The Federal Reserve Board.

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